



**First half 2010 results
Bologna, 26th August 2010**

Speakers:

- *Tomaso Tommasi di Vignano, Chairman*
- *Stefano Venier, Executive director of Development and Marketing*
- *Luca Moroni, Corporate Director of Administration, Finance and Control*
- *Jens Klint Hansen, Investor Relations Manager*

Chorus Call Operator

Good evening. This is the Chorus Call operator, welcome to the first half of 2010 results of the Hera Group. All participants are in listening-only mode. After the initial presentation we will have a Q&A session. To receive assistance by the operator during the conference call, please press star followed by zero.

And now I will give the floor to Mr Tommaso Tommasi di Vignano, Chairman of the Hera Group. Mr Tommasi di Vignano, you have the floor.

Mr Tommaso Tommasi di Vignano speaking

Good evening. It is the usual team here with Mr Venier and Mr Hansen but this evening we also have the Director of Administration and Finance with us, Mr Moroni, who has been working with us for a few months now.

We are here to illustrate the results of the first half. For the company it was a very satisfactory first half of the year both vis-à-vis 2009 and the equivalent semester and also in terms of the results that we had compared to the first quarter of 2010. In both cases the figures, that you probably are already aware of due to the publication of our communicate, prove our good results also vis-à-vis how these double digit positive figures have been holding, as Mr Hansen says, since all our figures have been increasing.

There are two figures which sum up these positive results and they are the percentage growth of the EBITDA and the percentage growth of the net profit. EBITDA grew by 15.6% compared to the previous year and in terms of net profit we have a +33.8%. This means a more than 42 million euro increase in EBITDA and a 15.8 million euro increase as far as the net profit is concerned.

As for the contribution made by the various businesses to this result, I need to highlight that all the businesses in the company did very well in terms of contributing to this positive results by making their positive contribution to the achievement of this growth.

Within this result we have two highly significant figures that we will be going into later on and they are the results of gas, with an EBITDA up by 18.4 million euro, and the waste EBITDA, which grew approximately 13 million euro – 12.8 to be precise. These are extremely satisfactory also in light of the concerns that we had to deal with last year.

The overall growth also has significant contribution from the electricity sector, with an internal contribution to this result which is highly supported by a higher quantity of volume, which is +16% in the electricity and +5% in gas. This contribution in terms of the commercial policy, which as far as gas is concerned took advantage of the particularly cold winter in the first semester, is also accompanied by the results of the regulated activities within which gas distribution contributed also due to the decisions that you are aware of in terms of the R.A.B. assessment by the energy authority.

All of this allowed these results to offset the competition level, which in terms of our downstream policy was noticeable in that period of time. Nonetheless, you will notice that in terms of volume and in terms of clients, our response was very positive indeed.

As for the waste issue, which had a few critical aspects vis-à-vis the previous year, we can say that with an 8% growth of the market waste which was processed, this is certainly a component which gave a boost to the Group's overall performance. We were also able to take advantage of the full performances of the Modena incinerator which had begun working last year.

In terms of investments, we will go into how we have reduced investments, with a -16.5% compared to last year, which is consistent with the reduction of our investment on the major plants on one hand, but also consistent with the anticipations that we had given in the business plan. The reduction of the investment, accompanied with our good management results, allowed us to obtain also another positive result which we had expected, which is that of having a significantly positive mark in terms of the cash flow that we had in the first half pre-dividend.

Finally, I would like to remind you of the fact that, even though it does not have an impact on our economic figures, at the end of the semester we also signed an agreement with the new Herambiente partner. We finalised the negotiations with them and after the antitrust examination will be concluded we will be having the new partner in the Herambiente company and in our Group.

This was an operation that we wanted very strongly, which we managed for quite some time and which we are very pleased to having completed within the time frame we had given you previously. We are glad to have such a qualified presence within our Group.

Moving on very briefly to our economic results, I would like to highlight the most obvious aspects of the results we obtained. First of all, as you can see in our presentation, the figures we have are partially due to an improved macro scenario. We have our triggers here, which had positive results in terms of our plants and in terms of producing synergy within the Group. This is very positive and can even be a surprise after years of our organic growth policy.

As far as our revenues are concerned, we have a decrease equal to 14% and this was due to two main reasons: a decrease in our trading activities in the electricity sector and, on the other hand, the lower prices that raw materials had over the period. This had an impact both on tariffs and on costs in terms of buying raw materials, which consistently reduced significantly.

As far as EBITDA is concerned, the interventions made on the regulated part of tariffs, which were consistent with our commitments, the expansion of the market both in the energy sector and in the gas sector and the expansion of our activities in the waste business, which grew by 8%, all of this – together with our policy which pays close attention to costs in the period – allowed us to obtain an EBITDA level which is equal to 313 million euro, that is +15.6%.

In terms of depreciation and amortisation, we have +11% compared to the previous year, which is divided equally between these two categories: depreciation linked to the new plants which are now working and the Group provisions which derive from the amortisation based on credits. Also in terms of EBIT this allowed us to obtain positive results equal to 175 million euro, with a 21.6% vis-à-vis the previous year.

In terms of pre-tax profits, we are at 120 million Euros, with a +34% which after taxes, which keeps in mind on one hand the benefits of Tremonti ter law and on the other hand the negative effects of the Robin tax, have achieved 42.4% and even in terms of net profit after tax we have a growth of 33.6% vis-à-vis the previous year.

These were the fundamentals in terms of figures but there are some things I need to add with regard to the way these figures were obtained. You can see this on page 3 of our presentation. This was made possible thanks to a very significant synergy and organic growth figures, which is equal to three quarter of the overall growth in the semester. The new plants in two cases became fully working in the second semester of 2009, therefore we are comparing the first half of 2010 with the first half of 2009 which did not benefit from the plants. These are the Modena plant and the Imola plant, which contributed to the EBITDA growth equal to 11 million euro compared to the previous year.

The second introductory point which needs to be made is something which concerns our portfolio. There have not been significant differences in terms of the contribution made by the various business areas but we need to highlight the fact that, even in these two years which were characterised by the economic crisis, the

EBITDA growth was equal to approximately 10% each year, which highlights the excellent performance of the company regardless of the crisis that hit the market and our company as all the others.

I will now give the floor to Mr Venier who will be breaking things down business by business.

Mr Stefano Venier speaking

Thank you and good afternoon. As usual, we will be going into each business area: waste, water, gas and energy.

We are at page 4 now. The important figure of the first half is represented by an increase of the growth of this business area, which is equal to some 13 million euro. This comes with no surprise as we had seen some signals of this in the first quarter of the year and even at the end of last year. Now, were we to compare it to the first half of last year, which was especially difficult, the results obtained this year are very significant indeed. We have volumes on one hand and the contribution of the new plants on the other, which is very significant indeed. And we have to add to this the tariff increase on the collection services which has been ongoing for the past two years.

On page 4, in terms of volume you will notice that there is a graph which shows how we have had an increase equal to approximately half a million tons in terms of the volume treated. This can be divided into the two sectors which are market waste and internal waste – the waste we managed internally because obviously the waste production has a number of different passages. Out of the 2.9 million tons, we have 1.750 million which come from the market; the remaining part is made up of the internal waste that we manage. Now, within these 1.750 million tons we have special waste, which grew by 10%, and urban waste which, as shown at the end of last year, grew by 6%. This gives us the 8% average the Chairman was referring to a few minutes ago.

The other point is represented by the fact that the Modena waste-to-energy plant is now fully operational. It is the most important one we have completed over the past two years and therefore its contribution is extremely visible in the first half of the year and it is equal to some 8 million euro.

Within the development of our service management, we need to highlight the fact that not only did we not interrupt the trend of transferring volumes from the landfills to the waste-to-energy plants, but we also have the separated collection of waste, which represents 2 million clients and which is of the highest in the sector.

Now, what will we be facing in the months to come? The events of the first half which will be reflected in the second half of the year will be the start-up of the Rimini waste-to-energy plant, which was the last plant that we had committed ourselves to building a few years ago. The plant has been up and running since June and certainly in the last quarter of the year it will be able to fully contribute operationally. We also have two other operations which are slightly smaller in terms of size but which are important for the portfolio. First, the project for the biomass unit – equal to 120.000 tons, equal to some 12 megawatt – which is now in its start-up activities. I remind you the fact that this is an initiative that we are bringing forth with an industrial partner. We will have 50% of this operation. Then we also have the anaerobic digestion plant – which is the first such plant in Italy – which just last week has been fully operational and that is equal to 1 megawatt.

Now, this is the overall picture in the waste sector.

Moving on to the water sector – I will refer to the figures on page 5 – the elements here are a little bit simpler. In terms of volume we have confirmed the volumes of the first half of 2009, approximately 120 million cubic meters. We have approximately the same figures in terms of sewage. The most important figure in this business is the tariff increase equal to +3.8%, which is in line with the agreements we had reached. On the other hand there are the initiatives that we are still working on, which are part of the synergy and organic growth that the Chairman was referring to, which had benefited in terms of costs and especially in terms of the cost for energy and electricity: as you know this sector consumes a lot of energy in terms of sewage and purification. Now, in this business, I will go back to what the Chairman was saying a few minutes ago, we have not seen encouraging growth in the real estate industry and, in this first half, we have less new connections compared to the previous year.

Moving on to the gas business, as you know, here we have both the regulated side of the market and the liberalised part of the market. We are at page 6.

As the Chairman was saying in his introduction, you will notice an increase in revenues which is very significant. Here we had more than 18 million euro, more compared to the first half of 2009. This is both for the regulated activities – where we have the new tariff scheme and the new recognised R.A.B. which increased compared to the first half of 2009, even in terms of revenues, equal to some 6 million euro – and then in terms of the commercial and trading activities of gas and in district heating as well, which benefits from the completion of the functioning of the Imola cogeneration plant. We have an improvement in our

results not only due to the cold winter but also in terms of decrease in cost for the production of vapour, equal to 4 million euro.

In terms of volumes – also on page 6 – you can see the results of the winter, which is particularly visible if you look at the distributed volumes, and the commercial activities, which also saw an overall increase of volume both in wholesale and retail, equal to 13%.

In terms of clients, as you know we are the local incumbent within the Emilia Romagna region, which is something that we manage in a sufficiently effective way. In terms of overall clients we have had a modest increase, meaning that we can fully offset the turn rate which, in this territory, is mainly due to the presence of Enel and their commercial policy.

Moving on to the energy sector– electricity at page 7 – in this case we have an increase of 5.8 million euro.

The positive contribution here comes especially from the sales and trading activities, with an increase of 16% and an increase between sale and acquisitions which was able to fully offset the decrease contribution made by the generation, which is something all operators in the sector had to deal with in this specific sector.

Within the distribution activity we can notice a one-off event which had a negative effect equal to 1 million euro, meaning that the profitability of this business was fundamentally below the results obtained in the same period last year. This is also because if you look at the distributed volumes in this region, which had defended itself a lot better last year, there are no signs of recovery since the volume grew by 1.3% only in the first half. This is due to the fact that last year when the demand was decreasing by 15% in other regions, in this region the demand decreased by only 4 or 5%.

In this business we also have the activities represented by microgeneration, which is a significant area of development starting to offer some interesting returns, with approximately 1 million euro on our revenues, and the benefits that we were able to obtain from the Tremonti tax benefit.

The other services are more and more marginal within our overall portfolio and this represents two activities substantially. In this case we had a slight contraction both in terms of a shrinking in our perimeter and in terms of the lower performances of the telecommunication businesses.

Now, very briefly at page 9 the performance of our investments. Here we are noticing a trend which confirms what we already saw last year and which highlights even more those dynamics that we had highlighted in our business plan, that is bringing our overall investments closer to 350 million euro yearly and, as you can notice in the figures, we are fully compliant with these expectations.

The areas in which there has been the most noticeable decline have been waste but also water and gas, whereas for electricity there has been an increase, but that is due to the fact that we are working on a few initiatives, some of which are in the photovoltaic production and at the end of the month of June we started a 2 megawatt plant here in the city of Bologna.

In terms of our financial debt, we have had a slight growth compared to the end of the first half of last year, which is due to the positive cash flow that we recorded in the second quarter and in the first half of the year and due to the fact that we have paid dividends equal to almost 100 million euro at the beginning of the month of June. The cash flow is absolutely under control and is even better compared to June last year considering the cyclicity of our businesses.

And the floor goes back to the Chairman.

Mr Tommaso Tommasi di Vignano speaking

Just a few more points to be made which can be summed up in the following. The positive results allow us to be confident that we will be able to match our year-end expectations, as our business plan showed last year, also keeping in mind that the comparison between the second half of 2010 and the second half of 2009 will be made in areas that are more similar compared to the first halves of the two years, because at the end of 2009 certain elements, more specifically in the waste business, had overcome some of the critical aspects which had emerged during the first half of 2009. Also keep in mind that the overall result in terms of EBITDA for 2009 in the second half of the year also had the benefits of the one-off acquisition of the gas distribution networks which had taken place at the end of the year. Obviously, being a one-off event, this will not be duplicated this year. So, we certainly have the opportunity to be able to match our year-end expectations.

We are also very satisfied with our commercial results in terms of our expansion. We are able to hold the ground in terms of the choices which allow us to grow commercially. These choices were not always understood in terms of our being cautious in the way we manage our operations upstream. When we entered the electricity business we heard all the concerns, we heard many telling us not to exaggerate in our presence since we were newcomers and we have benefited from a smaller impact, also in light of the

difficulties that the sector had. But our cautiousness can also be appreciated in an important business such as gas, in which we decided to avoid making long term commitments which other companies had and certainly represented a difficulty for them in terms of managing 2010. So, we are doing well in terms of expanding downstream but we are also doing very well in terms of managing the specific era we are living in.

We have already mentioned the good cash generation that we have had. Obviously with a good management, a decrease in capex and also a working capital which is under control it was inevitable that we would obtain results which are consistent with the commitments we made with the market.

Life moves on. Mr Venier already mentioned the start-up of the Rimini plant. We have a peak plant we had referred to previously, which has been built in the Abruzzo region and will be completed by the end of the year as expected and we are starting to work on the market opportunities outside our region in terms of building waste-to-energy plants.

As you know, we are taking part in the Florence tender after having qualified for the shortlist. Just a few days ago we received the request to send them our bid and hopefully we will be able to win the tender, since we have been working on it for quite some time now.

We expected to be able to make our offers in other regions of Italy. Besides the project of Florence, we now have another imitative in the southern part of Tuscany which was not an activity that we had foreseen but which we are looking into nonetheless since we obviously are in a newer phase compared to the Florence operation which was already described. We will see whether or not we will have the opportunity to take part in the second tender in order to be present in a market we have an important stake in.

As far as EISER is concerned and as far as EISER's stake in Herambiente, that should be completed by the end of the year and therefore we will have a new partner within Herambiente. This will also be a part of our commitment for the second half of the year.

So, as for our performances in 2010 we have no major concerns. You will notice that we have started very well and, also in terms of our strategy, there is consistency compared to the past. We will be giving you updates as far as our business plan is concerned in the months to come.

Now it is time for the Q&A session. Thank you very much.

Chorus Call Operator

This is the Chorus Call operator. We will now begin with our Q&A session. For all those wishing to ask a question, please press star followed by one on your telephone. If you change your mind and to exit the list, press star followed by two. Anybody wishing to ask a question press star followed by one now.

The first question is by Francesca Pezzoli of Cheuvreux.

Ms Francesca Pezzoli, Cheuvreux analyst

Good evening. The first question is on gas contracts. I would like to know if the good results that you had in the first half of the year are also expected in the second half of the year - obviously there were market conditions which were very favourable.

And then a few more indications on the waste business. Can you tell us about the developments within Herambiente?

Mr Stefano Venier speaking

I can answer the question concerning gas contracts. In terms of the good results, the answer is yes. As you know, in commercial contracts but also procurements, since we do not have significant long term contracts in our portfolio, the deadline, as far as the thermal year is concerned, is from October to September. We have obviously signed new contracts for next year as far as procurement is concerned and the signs have been very positive indeed. So from this point of view what we expect, as far as this sector is concerned, is to be in line with what happened in the first half of the year.

As far as proceeds on the shares sold to EISER, as you know we have an agreement which foresees the ceding of 20% with an option to offer them a further 5% within the end of the year. Now, with regard to the 20% stake, this is equal to 105 million euro whereas the further 5% stake is equal to some 26 million euro for a total of 132 million euro. Obviously these figures may be slightly modified due to the variation of the PFN of

this year. This is one of the activities on which we are working before we have the final closing of the deal and the payment is expected by the end of the year.

Mr Tommaso Tommasi di Vignano speaking

Moving on to your second question - the forecasts for the second half of the year - I can simply confirm what I just said: we are optimistic and these types of results are certainly an excellent platform to be able to end the year with positive results.

We also have to keep in mind the other two things I said, meaning that the comparison made between the two years is different between semesters also in light of how 2009 went. Obviously, we have to keep in mind the contribution the second half of the year will be able to make.

And the final remark is that already last year we had explicitly said that we wanted to reach the threshold of 100 million of EBITDA as close as possible, meaning that we are moving towards that figure and we confirm that as our target. It is a target that we are moving towards with a very positive attitude also in light of the results obtained in the first semester of the year.

Ms Francesca Pezzoli Cheuvreux analyst

Just a follow-up concerning the proceeds. Is your idea that of reinvesting in the waste business or do you not have any specific ideas in this sense?

Mr Stefano Venier speaking

There is no mandatory way of investing these proceeds. We will try to allocate the resources wherever we see the best possible return on our investment. Obviously the strength of Herambiente, which has a debt level equal to 500 million euro, currently allows us to be able to rise up to the initiative that the Chairman was referring to, which is the Florence waste-to-energy plant, without needing any further resources. Were we to see other important opportunities in this area, we will certainly invest in that area. Otherwise, since we also operate in two other sectors, obviously we will be able to think in terms of our entire portfolio and we will invest in those areas in which the return will be best.

Chorus Call Operator

Next question is by Dario Michi of Banca Akros.

Mr Dario Michi, Banca Akros analyst

Good afternoon. Can you give us further details on gas procurement for the new thermal year? What types of contracts you have in mind - not the price obviously - but what types of dynamics you have followed given the evolution of the legislation?

The second question deals with the potential development that the company may have in the Marche region. Do you have any news in terms of AIMAG? What kind of figures can we expect for the end of the year and what kind of dividends do you expect since we have had an increase of revenues equal to 34%?

Mr Stefano Venier speaking

Well, let's begin by the contract portfolio. As we said, we do not have many long term contracts. As you know, we have an import capacity equal to some half a billion cubic meters and on this we have a part of long term contracts. Everything else, equal to 2.5 billion cubic meters, is procured with the yearly contracts, meaning that we can work back to back compared to the market conditions that are emerging both on the European and the Italian markets.

Obviously, in the past few years the role that Hera Trading has had within our Group was that of optimising the procurement chain to be able to bring gas into Italy. This has been done thanks to partnerships with some European operators and in part thanks to the further capacity that we are able to obtain through the various bids that exist a few times during the year.

Therefore we have a portfolio which on one hand has a direct procurement or procurement which is managed directly and another part of procurement which is managed by national operators. We had an increase of the number of companies that we work with, even though, obviously, the two main operators are amongst our suppliers. I have to say that the conditions that we were able to negotiate allowed us to

efficiently offset the authority intervention. Part of the contracts was signed after that, therefore we were able to keep in mind the authority decision.

As far as the Marche region is concerned, as you know that is our main development area besides Emilia Romagna and at the beginning of the year we merged two sales companies, one of which was within Marche Multiservizi, which we partly controlled, and another which we controlled indirectly.

We brought together 83.000 clients and the work we have conducted over the past few months was very effective since it allowed us to recover half of the clients that we had lost. We consolidated 84.000 clients at the end of June and we were able to launch our sales in the electricity sector.

At the end of last year, after 7 to 8 months of commercial campaign, we had 8.000 new clients. In the first 6 months of this year we have added further 4.000, which brings us to 12.000 clients. This is approximately one fifth or one sixth of the customers we had in the gas business but obviously 4.000 new customers each 6 months allow us to grow significantly. Keep in mind that we acquired 30.000 clients in the first semester of the year, 4.000 of which were only in the Marche region. This allows us to be very confident.

And then, broadening our perspective to Marche Multiservizi, we have a few other opportunities that the company is working on to bring in two other operators in the waste business. We are also looking at the opportunity of taking part in the gas distribution tender in the Fano municipality. Then, there are other opportunities which may be more interesting for the commercial area, more specifically I am referring to private operators.

This is the overall picture. In a fragmented scenario, which is looking towards both the industrial rationalisation and the legislative pressure which is a consequence of law 23 bis – the Ronchi Decree – this is a situation in which we are well positioned so that we can spread our activities and grasp opportunities in the neighbouring provinces of Pesaro-Urbino.

Mr Luca Moroni speaking

Good morning, my name is Luca Moroni and I will be answering the question on tax rate.

In June 2010 the tax rate was equal to 42.4%. I would like to remind you the fact that in March it was 42.6%. 42.4% is the result of a couple of effects. One effect is positive, as was mentioned by the Chairman in his introduction, and that is the Tremonti ter law. Then there is the negative effect due to the Robin tax, equal to 3 million euro. The contribution of the companies which are suffering from the Robin tax to the revenue is important. Therefore, we are assessing the opportunities we have to see whether or not our tax rate can once again go down to 41% and possibly even lower. What we expect is to have a slight decrease but to maintain our figures attached to that 42%.

Mr Tommaso Tommasi di Vignano speaking

As far as the two last questions are concerned, with regard to AIMAG, we have an update for you. In the first half of the year budget, for the first time, we now have a contribution made by AIMAG because their revenues last year had not been sent in time and therefore they were calculated in the first half results.

With regard to the relations with the public shareholders of AIMAG and the possibility of acquiring control of the company, which is something that we have in mind, after the summer vacation we have started up a negotiation with the mayors once again because they had committed themselves to Hera and that is why we have to continue working to bring those results home. As far as we are concerned, we want to speed things up as much as possible so that we can be able to consolidate as quickly as possible. Hopefully we will be able to achieve this result within the year end, so that we can read the benefits of this beginning in 2011. Hopefully, it will be in line with our plan and the company will certainly be able to benefit from the presence of a company such ours. They also stand alone, obviously meaning that we do not want to keep it as such within the current framework of things but obviously we do not have any kind of pressure vis-à-vis the week in which we will be able to have a shift in ownership.

In terms of dividends - that was the last question - it is not exactly the right time to go into the issue of dividends. But I just remind you of the fact that we are convinced that the growth in our Group's profit will certainly have to bring about a growth in terms of our dividend policy. That is something that we confirm, also keeping in mind the two other elements that you have certainly noticed. The first is the results obtained by Hera on the stock market. Obviously our dividend policy needs to be linked to the share value. But we have also heard some ideas vis-à-vis the fact that we should not have a far too aggressive policy in terms of dividends, meaning that we will be very wise in the way we manage the growth perspective that we have.

Mr Dario Michi, Banca Akros analyst

Can I ask just one last question?

Mr Tommaso Tommasi di Vignano speaking

You certainly may.

Mr Dario Michi, Banca Akros analyst

What about gas? Should we expect a further delay in the decision? And what are the conditions, also in light of the market conditions which make investments highly unlikely now?

Mr Stefano Venier speaking

Well, the market conditions objectively are not favourable but obviously they do not push us towards speeding things up. They certainly do not push our Algerian friends towards speeding things up. For the time being, vis-à-vis the initial plans the final investment decisions have been expected between June and July but all partners agreed to postpone it to the end of the year. This does not mean that things have come to a halt. We are still continuing to work in terms of authorisations, land concessions, where there have been some problems and therefore all partners agreed to postpone the final decisions on the investments to the end of the year, we are simply referring to a few months.

Chorus Call Operator

The next question is by Stefano Gamberini of Equita SIM.

Mr Stefano Gamberini, Equita SIM analyst

Good evening. I have a couple of questions. First of all, can we go back to the breakdown of the EBITDA and the gas business? I understand there is an increase equal to 18 million euro, 6 coming from distribution, 4 coming from thermoelectric and 8 million euro coming from the trading and marketing improvement. Or is there another impact that I did not notice? I just want to see if there was an impact coming from different consolidation areas which will be expected in the second half of the year and I have the same question for the water business as well. Even here I was noticing that revenues are over 5% and we had very good volumes in the first half of the year.

Second question: could you tell us the EBITDA of the regulated businesses? For example gas distribution, district heating and the distribution networks. I have two other questions here. The first was on the sale of 20% share of Herambiente. I was doing the maths and I thought that we have a 7.4-7.5 times EBITDA. Herambiente has a +10% EBITDA for 2013 in light of the business plan but the multiple seems a little bit low. Could you elaborate on this aspect? Can you explain what your ideas are on this? And, if I understood correctly, any possible revenue would be invested in other businesses. What are the returns that you expect on these other businesses? Do you think that they will be better compared to the results obtained by Herambiente?

And then another question on dividend policy. What does it mean to link the dividend to the results obtained by the shares? The dividend policy which exists, I believe, is that of bringing the dividend to 11 cents in 2011. I was wondering whether or not the Chairman was referring to the downgrade made by Standard & Poor's. I was wondering if the dividend policy will change, meaning that it will no longer be a fix dividend and will become a payout, or how may change.

Mr Stefano Venier speaking

When you refer to 19 million, what you say is correct. Now, out of those, 8-9 million euro, which you thought was trading, it is actually partly sales partly trading, in the sense that we have a better result which is represented by the volumes – Hera Comm increased its sales by 60-70 million cubic meters and the trading part from 230 to 368 million cubic meters – but this also goes back to what we were saying. So it is a combined figure both of the trading and sales businesses.

You also wanted the splitting of regulated and liberalised activities. Distribution is equal to 58 million euro, district heating is 10.8 -10.5 million, and the rest is sales and trading.

But as for the water business I did not really grasp your question. You were saying that the tariffs increased by 3.5% whereas profitability grew more significantly. This is due to the costs. As you know, tariffs are based on expected operational costs which are based on the historical data at the beginning of the regulatory period. This means that in the first half of 2009 and in 2008 we suffered because we had to absorb an increase in the electricity cost for the water business which was not reflected in an increase of tariffs, whereas in the first half of this year, partly because we signed a fixed price contract, based on the experience, which was very convenient in September-October last year and partly because last year we were also able to optimise our electricity consumption, we had a benefit equal to 2.5 million vis-à-vis the first half of last year and this explains the improvement we had in terms of EBIDTA.

Your third question was about Herambiente multiples. Together with our advisor we were thinking of the values that you showed. In 2010 it is some 7.5 times as far as EBIDTA is concerned, in 2009 it is 8.5 times. In actual terms, we were saying that these values can be not that high but if we look at the values which other European companies are dealing with in the sector, you will notice that their figures are 6 times. While at home, Hera for example, we are below 6 times. So from this point of view, also based on what our advisor had to say, this seems like good value.

As far as profits are concerned, I had a more open approach vis-à-vis what you were saying. In other words, we do not have any problems in reinvesting profits from the waste business into the waste business again. The waste is at the same level as the electricity sector and the water sector. It is simply an issue of expected return. If we notice that the waste business has better return, as happened in recent years, we will continue to investigate this business, otherwise we will be making our investments in other businesses. I do not think there is a single label on that amount of money. The only label that there need to be is a minimum level of expected return.

Mr Tommaso Tommasi di Vignano speaking

Mr Gamberini, dear Sir, I have won a dinner because I expected your question on dividends. Thank you because I had expected it. Having said that, with regard to the seasonal aspect of things – we are in August – I think I have already answered your question actually, meaning that to the date, which is 10 months before the results being presented to the Board of Directors, it is very difficult for me to foresee what dividends we will be paying next year but I can say a couple of things.

Firstly, we expected the Group's net results to grow and we are consistent with that. In line with that, we wanted to give some kind of satisfaction to our shareholders in terms of paying dividends and that is something that we confirm.

We have not committed ourselves in terms of how the year will move on but, nonetheless, the spirit that we have vis-à-vis the second half of the year is a very positive one.

Secondly, I am not ashamed to say that there needs to be some kind of consistency between the decisions made on this issue and the performance of our shares in the stock market and there needs to be close attention to the issue of company debt. So this is enough to say that we are not changing our policy but we have to be in line with our expectations in a cautious way.

Mr Stefano Gamberini, Equita SIM analyst

Thank you.

Chorus Call Operator

Next question is by Edoardo Montalbano of Centrobanca

Mr Edoardo Montalbano, Centrobanca analyst

Good evening. My question is on the average cost of debt for the first half and I would like to know if you have a forecast for 2010 overall and then if you also intend to reduce the impact of the financial management in terms of net profit.

Mr Luca Morone speaking

This is Luca Morone again, I will be answering your question. The average cost of debt, as you were saying, is below 5% – 4.7 or 4.8%. We expect this level to stay as such or to improve slightly because we have a

swap option on our rates bringing a part of our debt to have a variable rate and this will certainly bring about a positive effect on our figures even in the second half of the year. When we made this operation, these rates were at 10 years around 3% and now we arrived to 2.5-2.6%. So this operation was made to obtain the result that we wanted to obtain, meaning that it is giving a positive effect to the cost of the debt itself.

Mr Edoardo Montalbano, Centrobanca analyst

Thank you.

Chorus Call Operator

If you have a question you can press star followed by one on the telephone.
For any further question you can press star followed by one on the telephone.
There are no further questions for the time being.

Mr Tommaso Tommasi di Vignano speaking

Thank you for your contribution. We hope to have been able to answer any question you may have had for the time being. If you have any other question we will be able to give you an answer in the days to come and hopefully the psychological effect of these results will be extremely positive as well. Thank you very much. Talk to you soon.